STATEMENT BY THE HONORABLE DAVID K. E. BRUCE
BEFORE THE COMMITTEE ON FOREIGN ECONOMIC POLICY,
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An enlightened American foreign economic policy is clearly indispensable if the United States is successfully to play its role as the dominant world power. Nor can this policy be developed entirely on pragmatic terms; it must at times be adapted to and serve purely political ends. However, political considerations, whether internal or external, must not be permitted to impair the fundamental health of our economic body. In striking a balance between what is desirable and what is practicable, our Government will have to make most difficult decisions.

I am convinced that a sound economy in the United States is essential to our leadership abroad. Even a temporary flutter, reflected in falling prices, on the New York Stock Exchange is within a few hours the subject of apprehension in financial centers as diverse as Hong Kong, Zurich, Tangiers, London, and Montevideo. The spectre of a possible recession in American business chills the enterprising spirit of financiers, industrialists, professional men and farmers in all free countries. Soviet dispositions have long been founded on the yet unrealized expectation of a capitalist collapse.

The United States, with about a twelfth of the world's population, produces over half of all industrial products, its farmers, constituting

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less than twenty percent of our people, throw off huge agricultural surpluses after satisfying the demands of our almost insatiable citizens.

Invention and investment bid fair to continue to increase the disparity between our own productive capacity and that of our associates in liberty. The only challenge comes from the Soviet Union, where an arbitrary/con- totalitarian centration of the forces of its people and the resources of its territories is apparently resulting in a productive rate proportionately even greater than our own. Between these two colossi, with their antagonistic systems, the rest of humanity is threatened with the respective fate of pensioners or serfs.

We can cripple our usefulness and undermine our strength quite easily. Inflation at home can prove as deadly as it has abroad; devouring our substance in careless extravagance, [redacted] or governmental inefficiency, could leave us gorged with gold and silver, like mediaeval Spain, but wanting in internal stability and incapable of providing the necessary bastion against ambitious attacks upon Western civilization.

[redacted] A narrow, economic isolationism would avail us nothing, for it would rapidly lead to political and military isolation.

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We have conquered a continent, but we cannot protect it alone. Our allies share with us the dangers which from many quarters threaten our mode of existence, and we must share with them the obligations of a common security organization designed for mutual protection and prosperity. Such a security organization depends for its vitality in large part upon our contribution and leadership.

How then are we to reconcile what ideally we would wish to do with what we can accomplish? That requires discipline at home, expressed in prudent management of our domestic affairs, and vision, bounded by a just estimation of our capabilities abroad.

Grants and loans in astonishing profusion have poured forth from [redacted] the Washington cornucopia. Indeed they have served admirable purposes; without them I profoundly believe the hammer and sickle would now be the flag of Europe, and we would have retreated into an embattled but vulnerable stronghold. But with their production vastly improved, their living conditions no longer so desperate that each man and woman dreads tomorrow, our partners in the free world have not the desire to receive nor we [redacted] domestically the wish to give charity. This change

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in the European moral climate betokens a resumption of vigor and self-respect. Bled as they have been by war and occupation, those who once desperately reached for material succor would now prefer to pay their liabilities with their own earnings from field, forest and factory.

Though the will be there, do the means exist? There is the problem. The old delicate interplay of trade relationships is gravely distorted, if not wrecked beyond repair. Our country is the most outstanding creditor nation in history, but the classic techniques for balancing payments no longer operate. We sit at the poker table with almost all the chips, and if we want companions in the game we must in some fashion finance them beyond minimum stakes.

There is no ready solution, no panacea that can shortly redress a situation caused by two cataclysmic wars in a single generation. Real wealth has disappeared in quantities beyond calculation or recapture. Ceaseless human energy exerted over a century would scarcely restore the reserves so wantonly consumed. Nevertheless, our duty and our interest is to deal with this task boldly and intelligently, in the realization that one phase of post-war rehabilitation is drawing to a close and a new stage

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stretches before us.

What course we will follow depends upon ourselves. It requires an unilateral determination, without benefit - until we are clear in our own will as to what we intend to do - of international, multilateral or bilateral negotiations. Conferences, negotiations, discussions with others will be fruitless until we are ourselves in accord.

Our fundamental problem is how to bring about the restoration of a free international economy, relatively unhampered by restrictions on currency and trade. Freedom in this field is necessary for a high level of multilateral trade among the nations, and conditions the maintenance of the prosperity we have enjoyed through the post-war years, often from artificial causes which are now evaporating. At the same time, in facing what is likely to be a long period of cold war, we need the raw materials, the production, and most of all the enthusiastic cooperation of the other western nations and of the new countries of Asia and Africa. In my view we can bind these peoples and these nations to us only if we can organize a permanent

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trading pattern for the free world on the basis of free enterprise in which all the nations can participate to their mutual advantage. These economic ties are as important for our security as the political and military coalition that we have created.

By far the most serious obstacle to the reestablishment of a system of multilateral free trade and currency convertibility is the so-called "dollar shortage", the persistent tendency of the United States to export more than it imports. There are, I believe, other obstacles, particularly those created by the fact that the world is rigidly split into two opposing groups of nations, and most especially the problems of absorbing the German and Japanese economies into the economic orbit of the West as long as the world political situation continues to cut these nations off from their natural and historic markets behind the iron curtain. But the inability of the other nations to

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finance a high level of imports from the United States, largely through payment by their own goods and services, is the most immediate and fundamental obstacle obstructing progress towards a permanent trading pattern; it is also one that we should do most about in the immediate period before us.

Before suggesting what policies the United States might follow to correct this fundamental imbalance, it should be emphasized that many of the underlying causes are directly attributable to mismanagement by the other nations of their own affairs. They have often not followed economic policies which would keep their economies competitive. By persistently living beyond their means, a number of them have kept their economies weak and dependent for survival upon outside assistance and autarchic devices. If we are even to approach a multilateral trading system and currency convertibility, these nations have arduous tasks cut out for them.

The cure is not any new trick formula; it is just sound financial and economic policies. Our associates will have to bring their budgets into line, adopt realistic exchange rates, break down the rigid structures of artificial controls - public and private - which hamstring initiative and obstruct competition. Only by such action can they break through the

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circle of low production and productivity, inadequate wages, high prices and excessive profits on a low turnover which characterize the European economies. Drives to increase dollar exports will have only limited success unless there is pressure within the respective domestic economies to force these export industries to meet dollar competition and seek foreign outlets.

In addition to taking internal measures to put their financial houses in order, the nations of Continental Europe should push ahead with the creation of a European federation. In this framework they can create a single market comparable in size to that of the United States, wherein men, goods and capital can flow freely. The basic fact is that Western Europe, parcelled into small economic units, has not been able to avail itself of the cost-savings of mass production. The European producer has never benefited from those conditions of enterprise which in the United States have given rise to an unprecedented level of economic activity. By liberating the vital forces of a market of 159 million people, the continental nations can strengthen their competitive position -

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a prerequisite to a freer movement of international trade and payments. This process should, as in the Schuman Plan, be a step towards generalized free trade and convertibility and should not in any case result in an increase in barriers against trade with the United States.

A serious effort should also be made to speed the development of the comparatively new economic areas in Asia and Africa. It is on these areas that the political efforts of Communism will be increasingly concentrated; they are also the sources of many of the raw materials which the United States will need to import in increasing quantities. The contribution of these areas to a prosperous world economy will depend on increasing production; to meet the Communist challenge will require a continuous rise in their standard of living. Such should be the purposes of this type of program, and the British Commonwealth and the continent of Europe must play a major role in it.

Whatever the deficiencies of the other nations, the United States should make its own policies consistent with the establishment of a free multilateral trading system and currency convertibility. It will be of no

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use for the British or the Europeans to place their export industries on a more competitive basis if they can have no reasonable assurance of long-term access to the American market. An effective program of development in Asia and Africa requires a large flow of capital, and the United States is the major source for capital in these quantities. Finally, whether present developments lead in the direction of fewer restrictions and more international trade depends squarely upon the type of leadership which the United States, as by far the most important trading power, will give. If the United States cannot soon find a way which promises to balance her accounts with the world at a high level of trade and investment, even the progress already made by our associates may be destroyed.

What, then, can and should we in the United States do?

First of all we must take whatever steps we reasonably can to increase our imports so as to permit our free world associates to earn what they need to pay for what they must buy from us. This means we must selectively adapt our tariffs to modern conditions of trade, and possibly vest the

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control over them in a small body of experts in the Executive Branch, under a congressional directive, who instead of making log-rolling determinations will approach an intensely serious question in a scientific but practical spirit and in the general interest. Studies no doubt exist that would indicate the measure of displacement and loss inflicted on affected industries by tariff changes, and the question of providing opportunities for readjustment or even compensation to those whose economic reasons for being are invalid should be explored.

A sensible change in our tariff structure would not be sufficient in itself. We must continue the efforts which the Congress has already undertaken to simplify our customs procedures, and we should adopt a non-partisan long-term policy on tariffs and other trade restrictions. Foreign businessmen cannot be expected to lay out the capital and effort required to sell in the highly competitive American market if the first success on their part will mean new restrictions and a consequent deprivation of the fruits of their enterprise.

A consistent non-partisan and long-term policy is needed also for the purchase of those raw materials which the United States will need to import

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in massive quantities during the years to come. The production and sale of these materials is a major element in the economies of those Asian and African areas which are of such importance to us politically; they are also an essential source of dollar earnings for those territories, and indirectly for the European countries with which many of them are economically and financially linked.

The purpose of a raw materials policy must be, without regimenting the international market, to forestall those violent fluctuations in quantities and prices which may spell disaster to the weak economy of an exporting country, and which discourage the development of production of things we need. The nature of such a policy needs close study, but I would agree with Mr. Lewis Douglas's suggestion that a way be found to permit "the use of government purchases, to the extent that they are necessary for other reasons, for the purpose of mitigating the effect of the cyclical movements of these critical materials."

The measures enumerated above are necessary to permit a greater flow of international trade and to create a climate in which a general reduction of trade restrictions and a move towards currency convertibility on a permanent

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basis will be possible. But we must realize that at least for some time to come the increase in imports which they might bring about would not be sufficient to finance a continuing high level of exports. Additional measures, in particular financial ones, must be sought for this purpose.

The first of these, and in the long run the most important, is an increase in the flow of capital abroad in the form of private investments. Such investment can play a particular role in developing the production in the new economies of Asia and Africa of the raw materials which we require. The responsibility here falls upon the initiative and enterprise of our businessmen and investors, but the United States Government can also help by working out with our associates ways to eliminate or reduce the special dangers which now discourage such investment -- nationalization, expropriation, inflation and non-convertibility. In this and other ways it should be possible gradually to interest American investors abroad; but (and this point should never be disregarded) as long as the American economy itself offers as many and varied opportunities for profitable investment as it now does, the process will be slow.

Continuing action by the United States Government will be required

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until increased imports and private investment abroad are sufficient to pay for the necessary level of exports. This must include a quantum of military assistance and collateral off-shore procurement. It must be consistent with the objectives of getting the United States Government out of the aid business, except in cases of unusual emergency, and should help lay the foundation for a sound and permanent pattern of multilateral trade and capital flow at a high level throughout the free world.

Long-term loans, either directly by international financial institutions, by the United States Government or, increasingly, in conjunction with semi-private and private investors. These loans, on a sound banking basis, should be directed to support self-liquidating projects which will help our associates to help themselves and to encourage the growth of private investment abroad.

In order to encourage the rapid development in Europe of the political federation and common market upon which the success of our policy there depends, the United States should consider some special form of support for the efforts of the Europeans to meet constructively the transitional problems which the creation of a common market on the Continent

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will produce.

Special forms should also be found for assistance to the new economic areas in Asia and Africa. These should be designed to promote the flow of private investment into these areas. They should also be of such a nature as to permit these territories to buy the equipment they need from Europe, and thus make dollars available to Europe with which to buy what it needs from the United States.

America's present position in the world presents great opportunities and great dangers. To accept the challenge will demand a real effort of adaptability. In the past we have generally felt secure in our own self-sufficiency and in our ability to afford the luxury of policies no longer consonant with prevailing conditions. Today our prosperity is intertwined with our posture in international affairs, and our political and military security is dependent on the health and strength of our Allies. America became great through the spirit of enterprise of her people, through their willingness to take legitimate risks and ceaselessly to expand their trade frontiers. Now, our destiny, perhaps our very survival, depends on our adopting in time the policies, perhaps revolutionary but certainly evolutionary, that our unique position inexorably imposes upon our ingenuity and judgment.

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